**Coronavirus crisis: there is no way back to business as usual in the EU**



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# Coronavirus crisis: There is no way back to business as usual in the EU

*What are the likely political and economic implications of the Covid-19 crisis for European states?* **Patrick Kaczmarczyk** *writes that the austerity measures imposed on Eurozone countries after the global financial crisis led to a surge of right wing and anti-EU parties across the continent. So far, these parties have gained strength, but have not yet come into power. If the EU were to go back to business as usual after the current crisis, this might quickly change – and the coronavirus may turn out to be the catalyst for breaking apart Europe's monetary union.*

The Covid-19 crisis has brought the European economy to a standstill. More and more states are taking drastic measures to contain the spread of the virus, while nobody can predict how long these exceptional circumstances will persist. As with any other crisis, we are once again learning that the future is fundamentally uncertain, and that people do not behave in rational, but emotional ways.

The consequences for the economy of this shock, which has hit both the supply and demand side, will be substantial. Yet, if the scope of the outbreak were contained through the emergency measures taken, it may well be the case that in a couple of months, we will be back to normal. The course that the spread of the disease has taken in China and the slowdown of the rate of new infections in Italy suggests that it is more likely to be a temporary crisis, even though a second wave of contaminations cannot be ruled out and this best case scenario should of course not be the baseline assumption for policymaking (neither should the high death toll lead us to downplay the consequences of the disease).

Regardless of when the crisis passes, however, it is already clear that its consequences for the European economy will go significantly beyond the short-term. First of all, the spread of Covid-19 has exposed the danger and fallacy of cutting spending for public health services and outsourcing the production of vital medical supplies overseas. Leaving the issue of public health to profit-driven private companies for reasons of 'efficiencies' and a 'lack of public resources' lies at the very heart of the problem that we are dealing with. The fact that austerity costs lives is not new, but the Covid-19 crisis has brought it into the spotlight and public conscience.

Secondly, the expansive fiscal responses to the crisis have laid bare that the 'limited fiscal space' under which austerity measures were justified was nothing more than an ideological and, in the case of Europe, self-imposed political constraint. All of a sudden, countries who were deemed to have "too much debt to borrow and spend" have set up fiscal emergency packages and liquidity facilities that go into the trillions. In Hong Kong and the US, we are seeing the implementation of Helicopter Money to offset the fall of income for many households and businesses.

So far, few analysts or economists seem to be asking where this money is coming from or how these expenditures will be paid for. Despite the higher demand for credit by businesses and increased government spending, interest rates fell in the US and in the UK, and remained at record lows in Europe, where the ECB had little room for manoeuvre before the crisis hit, but still announced the launch of a 750 bn EUR bond-buying programme. If anyone still doubted the endogenous nature of money, it is unfolding right here in front of our eyes.

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**Christine Lagarde, President of the European Central Bank, at an ECB Governing Council Press Conference on 12 March. The ECB has announced a 750 billion euro package to mitigate the impact of the Covid-19 outbreak. Credit: Dirk Claus/European Central Bank (CC BY-NC-ND 2.0)**

This puts a theoretical cornerstone of neoclassical economics – the loanable funds theory – in jeopardy. The collapse of spending furthermore illustrates that savings are a problem for any monetary economy, since the forgone revenues in the private sector put firms under pressure and, in many cases, on the brink of bankruptcy. Nothing makes clearer that the notion of savings as a virtue and prerequisite for investments, as put forward by neoclassical and ordoliberal economists, is little more than a folly.

The ramifications of this go beyond narrow academic debates. What we are now seeing is that the theoretical foundation for constraining public spending, as expressed in the Maastricht Treaty or the Stability and Growth Pact (SGP), has no validity. Recognising this must be the first step toward re-thinking economic policymaking in Europe.

The second step is to acknowledge that even before the crisis, we had already witnessed a fundamental structural shift across capitalist economies, namely that the corporate sector has become a net-saver. With the exception of countries like Germany, who were able to avoid public debts by shifting the accumulation of net-liabilities to the foreign sector via large current account surpluses, governments have had to take on the role of net-debtor, corresponding to the net-saver role of the private sector (households and firms). This mercantilist approach fails to offer a sustainable strategy for an economy as large as the Eurozone.

In the current context, it is certain the Covid-19 crisis will increase deficits across the Eurozone. Also, one has to take into account that this crisis hits Europe's Economic and Monetary Union (EMU) at a time in which monetary policy is already at its limits, and many southern European countries, as well as France, have not had a chance to substantially recover from the last crisis – primarily due to the fiscal constraints imposed by the EMU-regime. Herein lies the danger for the long-term viability of the EMU. If, once the Covid-19 crisis is over, Germany and its ordoliberal allies continue to insist on the Maastricht criteria and the fiscal constraints set out in the SGP, the coronavirus may turn out to be the catalyst for breaking up the monetary union.

The austerity measures introduced over the past decade have already suffocated European economies and fuelled widespread discontent. Except for a short period in Italy, in which Matteo Salvini's Lega formed a government with the Five Star Movement, the success of right-wing anti-EU parties has hitherto been limited to increasing their political weight, while falling short of obtaining executive power. Yet, in contrast to the double-crisis of 2007-9 and 2010-12, and the subsequent failure of the EMU to respond, these political forces are now in a much stronger starting position. If the EMU is destined to survive, there can be no way back to business as usual.

A continuation of austerity and the obsession with government deficits will deepen discontent among the disenchanted, and the winners will likely be right-wing anti-EU politicians, notably in Italy and France. While the last crisis helped right-wing populists move to the forefront of European and national politics, another crisis and another failure to respond might put them in the driving seat in several key Eurozone economies. A rethinking in Berlin and Brussels of its approach to economic policymaking will therefore be paramount to preventing a disintegration of the monetary union.

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*Note: This article gives the views of the author, not the position of EUROPP – European Politics and Policy or the London School of Economics.*

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